

MILLENNIUM CHALLENGE CORPORATION CONGRESSIONAL NOTIFICATION

March 3, 2006

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	FY 2005 Program Funds
OBLIGATION AMOUNT:	\$307,298,040

In accordance with section 610 (b)(1) of the Millennium Challenge Act of 2003 (the “Act,” Pub. L. 108-199, Division D), this is to advise that the Millennium Challenge Corporation (MCC) has entered into a Compact with the Government of Benin (GOB) pursuant to Section 609 of the Act, through which MCC will grant up to Three Hundred and Seven Million Two Hundred Ninety-Eight Thousand and Forty U.S. Dollars (USD \$307,298,040) of FY 2005 Millennium Challenge Account (“MCA”) funds. Of this amount, MCC will obligate, pursuant to the authority of Section 605 of the Millennium Challenge Act of 2003 (the “Act”), up to Three Hundred and Five Million Seven Hundred Sixty One Thousand and Fifty US Dollars (USD\$305,761,550). Obligation of these funds will be made at the point the Compact enters into force. The Compact will enter into force pursuant to Section 1.3 of the Compact upon the satisfaction of certain conditions set forth in Section 4.1 of the Compact. These funds will be disbursed in tranches over the course of the Compact’s term upon satisfaction or waiver of relevant conditions precedent.

In order to accelerate implementation of the Compact, MCC has obligated the remaining One Million Five Hundred Thirty Six Thousand Four Hundred and Ninety U.S. Dollars (USD \$1,536,490) of the total amount at the time of signing of the Compact, pursuant to the authority of Section 609(g) of the Act.

The United States, acting through MCC, and the GOB executed the Compact on February 22, 2006.

A detailed summary of the Compact follows along with a copy of the text of the Compact.

I. Introduction

Situated in West Africa, between Nigeria and Togo in the Gulf of Guinea, Benin is a very poor country with a population of nearly seven million, a third of which live in poverty. Progress in development is attributed to reforms initiated in the early 1990s as Benin transitioned from a Marxist-Leninist state towards a pluralistic democracy and market economy.

Despite growth rates averaging 5% per year in the past decade, rapid population growth has offset much of these gains and poverty remains widespread. Per capita income in Benin remains below the sub-Sahara African average and rural poverty has increased in recent years. Benin’s economy is narrowly dependent on cotton production, subsistence agriculture and regional trade through the Port of Cotonou. Key impediments to sustainable economic growth and poverty reduction are a poor investment climate and a lack of dynamic private sector activity. These are hindered by land

insecurity, lack of access to capital, an inefficient judicial system, and an increasingly uncompetitive Port of Cotonou.

The five year, approximately \$307 million Millennium Challenge Compact with the Government of Benin aims to increase investment and private sector activity in Benin. The program to be funded under the Compact (Program) seeks to remove key constraints to growth and supports improvements in physical and institutional infrastructures. The projects included in the Program reinforce each other and MCC estimates they will together contribute to an economic rate of return (ERR) of 24%.

II. Program Overview and Budget

Benin's MCA Program is a series of strategic investments designed to improve core physical and institutional infrastructure and increase investment and private sector activity. The Program comprises four Projects: "Access to Land," "Access to Financial Services," "Access to Justice," and "Access to Markets."

Access to Land ("Land Project") (approximately \$36 million): Investment climate studies list land access among the top constraints to business development in Benin. This Project aims to create secure land tenure for the poor and non-poor alike and to create effective, transparent governance of land and property issues. MCC anticipates this Project will reduce the time and cost to obtain a title, reduce the number of land disputes, and increase the perception of land security.

Access to Financial Services ("Financial Services Project") (approximately \$20 million): Due to the high cost or unavailability of credit and other financial services, small businesses in Benin are unable to expand production and employment. This Project aims to improve the ability of micro, small and medium-sized enterprises (MSMEs) to respond to opportunities by expanding access to financial services. The Project is designed to expand the financial services provided to MSMEs, improve supervision of microfinance institutions (MFIs), increase MFI operational self-sufficiency, decrease MFI portfolio at risk, and increase the number of loans guaranteed with land titles.

Access to Justice ("Justice Project") (approximately \$34 million): A major obstacle to investment and economic growth in Benin is the inefficiency of the judicial system. Only 8% of commercial cases filed are resolved within a year. Benin was recently rated by the World Bank as among the most difficult places in the world to enforce a contract. This Project aims to strengthen the institutional environment for business and investment in Benin by improving the ability of the judicial system to resolve claims. The Project is expected to increase the number of cases resolved per year by the Courts of First Instance, increase the number of cases handled by the Arbitration Center, and increase the number of registered enterprises.

Access to Markets ("Markets Project") (approximately \$169 million): The importance of the Port of Cotonou to Benin's economy has been increasing, while its competitiveness has been steadily decreasing. This Project is designed to promote access to markets by improving Port operations and infrastructure. Specifically, it aims to improve Port performance and security, expand capacity, and reduce costs. MCC anticipates the Project will reduce delays at the Port and increase the volume of imports and exports.

The below table outlines the estimated MCC contribution to the Program by year and category for term of the Compact.

Description	Timeline					TOTAL (\$US Mil)
	Compact Y1 (\$US Mil)	Compact Y2 (\$US Mil)	Compact Y3 (\$US Mil)	Compact Y4 (\$US Mil)	Compact Y5 (\$US Mil)	
Access to Land	4.56	10.43	8.55	7.37	5.11	36.02
Access to Financial Services	3.15	5.42	5.41	4.71	0.96	19.65
Access to Justice	3.83	7.85	9.06	6.97	6.56	34.27
Access to Markets	9.45	30.13	66.29	62.36	1.22	169.45
Program Administration & Audits	8.21	7.61	7.75	7.73	7.83	39.13
Monitoring & Evaluation	3.19	1.69	1.24	1.24	1.42	8.78
ESTIMATED TOTAL	32.39	63.13	98.30	90.38	23.10	307.30

III. Impact

The Program is expected to impact up to five million beneficiaries and lift an estimated 250,000 Beninese out of poverty by the year 2015. Specifically, the Land Project is expected to assist an estimated 115,000 rural and urban households with more secure and useful tenure; contribute to a 50% reduction in court cases related to land disputes; and result in a 10% increase in investment in rural land and a 20% increase in investment in urban property. The Financial Services Project is expected to expand financial services to MSMEs by nearly \$60 million (a multiple of three times the Project's funding), thereby increasing MSME value added and incomes of the poor that own, are employed by, or do business with those enterprises. The Justice Project is anticipated to benefit approximately 2.38 million Beninese by bringing courts closer to rural populations and making them more responsive and effective. Finally, a more efficient Port will contribute to importer and exporter value-added by reducing transportation costs and increasing the level of Port operations. It is likely that the anticipated reduction in shipping costs will be passed on to wholesalers and traders, and ultimately be reflected in lower consumer prices. Additional added value in jobs from fish processing and Port operations are expected from improvements in several infrastructure components.

IV. Program Management

Government of Benin (GOB) will create a legal entity (MCA-Benin) to manage and oversee the implementation of the Program. This entity will be comprised of an eleven-member Board of Directors and a management team. The Board of Directors will make certain strategic decisions and recommendations, provide oversight of the Program implementation and ensure the success of the Program. MCA-Benin's management will be responsible for the implementation of the Program, including contracting, program management, certain financial management functions, and coordination of monitoring and evaluation. In addition, an eight-member Advisory Council will be established to provide recommendations and feedback to the MCA-Benin Board of Directors.

Independent fiscal and procurement agents, selected through international competitive search processes, will be engaged to provide fiscal management and procurement services respectively.

V. Other Highlights

A Consultative Process:

This Program has undergone one of the most robust consultative processes to date in an MCA-eligible country. Benin's proposal is the product of a genuine, meaningful and participatory consultative process. Guided by the Poverty Reduction Strategy Paper (PRSP), GOB's consultative process included a wide cross-section of private sector and civil society groups in the formulation of Benin's MCA priorities. Benin held several consultative meetings with representatives from various stakeholder groups as well as radio and television events to broadly present the outlines of the proposal and garner feedback from intended beneficiaries. The consultative process was guided by the Benin National Committee (BNC), whose members were elected or delegated by their respective constituencies. Representation on the BNC includes six representatives of GOB, three representatives of civil society, three representatives of the Chamber of Commerce, three representatives of national labor unions, two representatives of the Agricultural Chamber, and one representative of artisan associations.

B. Government Commitment and Effectiveness:

The Program has received considerable attention during the Compact development process. GOB allocated \$680,000 for the preparation of the proposal and has committed as part of the Compact to contribute an additional 5 billion CFA (\$9.2 million) to the Program during the Compact Term. One fourth of this contribution has already been included in the national budget for 2006 and will be available immediately following Compact signing. GOB has also expressed its commitment to the Program by its willingness to condition key activities upon requirements for institutional change and policy reform.

C. Sustainability:

Sustainability will be ensured through training, capacity building, policy reforms and institutional changes. The Land and Justice Projects contain core training, information and education campaigns that will build public knowledge on land and justice issues, respectively. A key objective of the Financial Services Project is to enhance the sustainability of existing commercial actors that service MSMEs. Beneficiaries of the Challenge Facility can be expected to continue to implement improvements in financial technologies and institutional capacities after Program support ends. The Markets Project includes greater private management of operations, more efficient land usage, and streamlining of customs processing.

D. Environment and Social Impacts:

The Land and Financial Services Projects are expected to have few or no adverse environmental and social impacts. They have been placed in screening category "C" under the MCC Environmental Guidelines. The Land Project is anticipated to have positive social effects as well as to foster land stewardship. The Financial Services Project will incorporate training, technical assistance, and services, where appropriate, on strategies to avoid environmental and social risks and enhance the sustained impact of access to financial services. Both of these projects have specific commitments to take into account gender concerns.

The Justice Project has the potential for modest, adverse environmental and social impacts because of construction of a legal information center and courthouses. The Justice Project has been placed in screening category "B" under the MCC Environmental Guidelines. A framework environmental

and social assessment will be required to screen sites once they are proposed and provide guidance for site-specific Environmental Management Plans (EMPs) and Resettlement Action Plans (RAPs) consistent with international best practices. To enhance the social impacts of this project, outreach will be designed to incorporate gender considerations as well as access by vulnerable segments of society.

The Markets Project has been placed in screening category “A” under the MCC Environmental Guidelines and will require a comprehensive Environmental and Social Impact Assessment (ESIA), conducted in phases. As a critical first step, technical, environmental, engineering and economic studies are required to evaluate alternatives and select the preferred design to reduce sedimentation of the harbor access and not adversely impact coastal erosion east of the Port; studies must also analyze disposal of potentially contaminated dredged material, for the selected alternative and new wharf construction. Based on these studies, an ESIA and EMP will be required to address impacts of increased Port activity and new infrastructure and compliance with international marine conventions. An ESIA (combined or separate, according to schedule needs) will be required for landside improvements, including an environmental audit of the existing operations, an Environmental Management Plan/System, and an overall EMP. Verification is required to determine if economic or physical displacement will occur and a RAP is needed.

F. Donor Coordination:

The MCC investment would position the United States Government as the largest bi-lateral donor to the country. Other major donors to Benin are the Netherlands, Denmark, France, Belgium and Germany.

GOB and MCC have convened various discussions and meetings with donor partners to ensure complementarity. The German development agency, *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ), financed a pilot phase of the Rural Land Plans upon which sections of GOB’s proposal are based. A recent International Finance Corporation Foreign Investment Advisory Service (FIAS) investigation of the investment climate in Benin will recommend a reform agenda very similar to what is proposed for MCC funding. A number of multilateral and bilateral donors, including the World Bank, France, Denmark, and the Netherlands, have been involved in activities and studies aimed at improving the performance of the Port of Cotonou.